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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 001499

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TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [RS](#)
SUBJECT: SECRETARY GUTIERREZ'S MEETING WITH NATURAL
RESOURCES MINISTER TRUTNEV

Classified By: Amb. William J. Burns. Reasons 1.4 (b/d).

11. (C) Summary: U.S. Commerce Secretary Carlos Gutierrez, accompanied by the Ambassador, met April 2 with Russian Minister of Natural Resources Yuriy Trutnev. Responding to Gutierrez, Trutnev said that Ministry of Natural Resources' (MNR) inspection of the ExxonMobil-led Sakhalin-1 project was "routine" but warned that if they find "major problems, then we can't close our eyes to this." The GOR will not go forward with a draft subsoil law but is discussing amendments to the existing legislation. The GOR will include in the amendments the definition of "strategic" deposits. Trutnev flagged that some in the GOR wanted to apply a more expansive definition to the term "strategic" than does his ministry. U.S. companies will be able to take a non-controlling stake in "strategic" projects. Trutnev described the forestry sector as "deformed" and said that the GOR is interested in expanding domestic pulp and paper processing versus simply exporting raw lumber. U.S. companies are welcomed to invest.
End Summary.

Sakhalin-1

12. (C) Gutierrez asked Trutnev to describe the expected April environmental inspection of the ExxonMobil-led Sakhalin-1 project (The inspection will be performed by Rosprirodnadzor (RPN), an agency within MNR. RPN gave an unfavorable review to Shell's Sakhalin-2 project that many thought was a means to pressure Shell into cutting a deal with Gazprom). Trutnev said the inspection will be "routine" but that RPN would not be able to provide any details before they began work. He was very hopeful that the Sakhalin-1 consortium would be in compliance but warned that if there are "major problems, then we can't close our eyes to this." Although they perform the inspection, MNR is not working alone within the GOR on this issue (license compliance). The MNR will only be able to give its first impressions in May, at the earliest. Gutierrez responded that giving the consortium a fair hearing is all that we expect.

Subsoil Law/Strategic Deposits

13. (C) In discussing the subsoil regime, Gutierrez said that what our companies are looking for is greater clarity and

predictability in order to make better business decisions. Trutnev said it was regrettable that "work slowed down" on the draft new subsoil law but that his ministry remains a "consistent champion of everything put in the draft." The Cabinet is debating a series of 18 amendments to the current law, within which the MNR "has introduced all innovations that were in the draft law." The MNR wants greater clarity and transparency by trying to exclude any room for interpretation in the text. Further, the ministry is still pushing for licenses to be subject to civil law rather than administrative oversight.

14. (C) Trutnev said his ministry's ideas about what should constitute a "strategic" reserve have not changed in the 18 months since its proposal was submitted to the government. However, there are some in the government who have expanded the definition of "strategic" and now want to apply this to "already-distributed fields." Companies can participate in projects to develop these reserves if they are willing to take a non-controlling stake in the project.

Forestry Sector

15. (C) Gutierrez said that the deal between International Paper and Ilim Pulp is one of the best examples of how U.S. and Russian firms can work together. Other U.S. firms are anxious to invest in Russia's forestry sector. Trutnev described the sector as "deformed." Russia has one-quarter of world lumber reserves but only accounts for two percent of global pulp and paper processing. The GOR wants to change this by attracting investment, from the U.S. or elsewhere. An immediate action will be to increase the export duty on raw lumber in an effort to stem exports, most notably to

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Finland and China. Trutnev said he personally would be supportive of any project that led to investing in domestic processing.

16. (U) This cable was cleared by Secretary Gutierrez's delegation.
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